

Message Text

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C O N F I D E N T I A L ROME 17215

LIMDIS GREENBACK

E.O. 11652: GDS

TAGS: EFIN, IT, IMF

SUBJECT: ITALIAN REACTION TO G-10 RECYCLING MEETING AND TO
U.S. INTERVENTION IN IMF RE OIL FACILITY

REF: STATE 268582

1. SUMMARY. ITALIAN DELEGATE TO DECEMBER 5-6 MEETING
OF G-10 WORKING GROUP ON RECYCLING THOUGHT THAT MEETING
HAD GONE RATHER WELL. ON OTHER HAND, HE SAID THAT
ITALIAN OFFICIALS WERE CONCERNED THAT US INTERVENTION IN
IMF ON DECEMBER 6 CONCERNING FUTURE OF IMF OIL FACILITY
MIGHT RE-OPEN VARIOUS PROBLEMS IN G-10 AND DELAY AGREEMENT
ON NEW OECD FACILITY. AT SAME TIME, HE FEARED THAT SIMILAR
PROBLEMS IN IMF MIGHT IMPEDE DECISION ON IMF FUNDING IN 1975,
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SO THAT ADEQUATE FINANCING WOULD NOT BE AVAILABLE FROM EITHER

SOURCE SOON ENOUGH IN 1975. END SUMMARY.

2. TREASATT SAW BARATTIERI OF BANK IF ITALY ON DECEMBER 11 TO ASK ABOUT ITALIAN REACTION TO DECEMBER 5-6 MEETING OF G-10 WORKING GROUP ON RECYCLING AND TO DECEMBER 6 INTERVENTION IN IMF BY US EXECUTIVE DIRECTOR. BARATTIERI SAID THAT HE THOUGHT WORKING GROUP MEETING HAD GONE QUITE WELL. (THIS VIEW HAD BEEN CONFIRMED EARLIER IN TALK WITH OSSOLA.) HOWEVER, GERMANS AND JAPANESE HAD NOT BEEN VERY ENTHUSIASTIC ABOUT NEW OECD ARRANGEMENT AND US SEEMED TO HAVE RETREATED FROM ORIGINAL POSITION WHICH IMPLIED THAT USG MIGHT SEEK TWO-YEAR COMMITMENT FROM US CONGRESS FOR US CONTRIBUTION. ALTHOUGH THERE HAD NOT BEEN MUCH SUPPORT FOR US PREFERENCE FOR GOVERNMENT CONTRIBUTIONS RATHER THAN COLLECTIVE GUARANTEES, IT LOOKED LIKE AGREEMENT MIGHT BE REACHED ON MIXED SYSTEM EMBODYING BOTH. ITALIANS HAD NO PROBLEM WITH AMOUNT OF THEIR OWN CONTRIBUTION BUT WANTED EACH COUNTRY'S BORROWING RIGHTS TO BE DOUBLE ITS NATIONAL CONTRIBUTION, RATHER THAN EQUAL TO IT, AS WAS FAVORED BY US AND GERMANY. AS COMPROMISE, ITALIANS HAD PROPOSED THAT LARGER AMOUNT MIGHT BE MADE AVAILABLE IN TWO TRANCHES, WITH LATTER SUBJECT TO MORE RIGOROUS CONDITIONS. IN ABSENCE OF LARGER BORROWING RIGHTS, ITALIANS THOUGHT THAT OECD FUND WOULD NOT MEET CRITERION OF BEING LARGE ENOUGH TO DO THE JOB. (EMBASSY TENDS TO AGREE THAT AVAILABILITY OF ADDITIONAL \$1.75 BILLION IN BORROWING RIGHTS, AT LEAST IN ITALIAN CASE, WOULD NOT BE VIEWED IN ITALY AS SUFFICIENT TO INSURE ITALIANS AGAINST DANGERS WHICH NEW ARRANGEMENT IS DESIGNED TO AVOID. ON OTHER HAND, \$3.5 BILLION WOULD COME MUCH CLOSER TO DOING SO.)

3. BARATTIERI SAID THAT ITALIAN OFFICIALS HAD ONLY JUST BEGUN TO EVALUATE IMPLICATIONS OF US POSITION ON IMF OIL FACILITY IN 1975, AS DESCRIBED IN US INTERVENTION AT DECEMBER 6 MEETING OF BOARD OF EXECUTIVE DIRECTORS. HE SAID THAT HE, AND SOME OF HIS INFORMAL CONTACTS IN OTHER EUROPEAN COUNTRIES, WERE STILL SOMEWHAT STUNNED BY US INTERVENTION. ITALIAN EXECUTIVE DIRECTOR HAD REPORTED SIMILAR REACTION DURING DECEMBER 6 MEETING OF BOARD. BARATTIERI ADMITTED THAT THERE WAS SOMETHING TO BE SAID FOR NO LONGER MAKING DISTINCTION BETWEEN OIL DEFICIT AND OTHER COMPONENTS OF BALANCE OF

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PAYMENTS DEFICITS AND THAT PROLIFERATION OF NEW IMF WINDOWS WAS UNDESIRABLE. BUT, ITALIANS WERE SURPRISED AT US OPPOSITION TO EXPANSION OF OIL FACILITY, WHEN US HAD BEEN ITS CHIEF SPONSOR IN BEGINNING. ALSO, FUND STAFF HAD CLAIMED AT BOARD MEETING THAT IMF DID NOT HAVE AMOUNT OF FUNDS AVAILABLE IN 1975 THAT US HAD INDICATED AND, EVEN IF IT DID, WHAT WOULD HAPPEN WHEN IT RAN OUT AFTER 1975?

4. ITALIANS WERE MAINLY CONCERNED THAT US, BY HAVING RAISED VARIETY OF ISSUES IN IMF, WOULD CAUSE DELAYS IN DECISIONS REQUIRED TO ASSURE THAT IMF WOULD HAVE SUFFICIENT FUNDS IN 1975 AND THAT RULES FOR USE OF THESE FUNDS WOULD BE AGREED TO SOON ENOUGH TO ASSURE ADEQUATE FINANCING FROM THIS PRIMARY SOURCE. AT SAME TIME, BY QUESTIONING OIL FACILITY IN IMF, US RISKED RAISING RELATED QUESTIONS AT NEXT G-10 WORKING GROUP AND, SUBSEQUENTLY, IN G-10 DEPUTIES AND MINISTERS SO THAT PROGRESS ON AGREEMENT ON OECD FACILITY MIGHT ALSO BE IMPEDED. RESULT WOULD BE THAT SUFFICIENT FINANCING WOULD NOT BE AVAILABLE SOON ENOUGH IN 1975 FROM EITHER SOURCE.

5. MINTREAS DIRECTOR GENERAL PALUMBO ON DECEMBER 12 CONFIRMED ITALIAN WORRIES ABOUT EFFECT OF US INTERVENTION IN IMF ON AVAILABILITY OF ADEQUATE FINANCING FOR ITALY IN 1975. HE, TOO, SEEMED RATHER MORE CONCERNED ABOUT DELAY IN AGREEMENT ON AVAILABLE FINANCING NEXT YEAR THAN ABOUT CONTENT OF US INTERVENTION, ALTHOUGH ITALIANS MAY HAVE TROUBLE WITH SOME ASPECTS OF US PROPOSALS. PALUMBO RECOGNIZED US DESIRE TO FORCE OIL PRODUCERS TO FIND WAYS OF INVESTING THEIR EXCESS FUNDS WITHOUT SPECIAL INCENTIVES FROM CONSUMING COUNTRIES. WHILE PRODUCERS WOULD BE FORCED TO INVEST THEIR MONEY SOMEWHERE, ITALIANS DOUBT THAT ITALY WOULD RECEIVE MUCH INVESTMENT BECAUSE OF ITS PRECARIOUS ECONOMIC AND FINANCIAL SITUATION. PALUMBO STRESSED THAT IN ABSENCE OF ADEQUATE FINANCING, COUNTRIES SUCH AS ITALY COULD EVEN BE FORCED TO TAKE RESTRICTIVE MEASURES TO DEAL WITH BALANCE OF PAYMENTS PROBLEM. VOLPE

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